

Memorandum

TO: HONORABLE MAYOR &
CITY COUNCIL

FROM: Julie Edmonds-Mares

**SUBJECT: ADJUSTMENTS TO
PARKLAND FEES**

DATE: August 18, 2014

Approved



Date 8/27/14

RECOMMENDATION

Adopt a resolution to be effective December 1, 2014 to:

- (i) Set forth the new Schedule of Parkland Fees charged pursuant to the San José Municipal Code Chapters 14.25 ("Park Impact Ordinance") and 19.38 ("Parkland Dedication Ordinance") to reflect the 2012 Residential Land Value Study trended to 2013, and the updated 2010 Census data; and
- (ii) Authorize the City Manager to determine the applicable parkland fees for any residential units in the City of San José that are not included in the Schedule of Parkland Fees based on the nearest MLS (Multiple Listing Service) districts.

OUTCOME

The adoption of a new parkland fee resolution will enable the City to collect parkland fees that reflect the updated land values from an analysis of the current real estate market, the 2012 land value survey, and the 2010 census data. The proposed resolution will result in an increased parkland obligation ranging from 5.0% to 12.5% for residential developments in all MLS districts.

BACKGROUND

The City of San José enacted the Parkland Dedication Ordinance ("PDO")¹ in 1988 to help meet the demand for new neighborhoods and community parkland generated by the development of new residential subdivisions. The City's PDO is consistent with the State's Quimby Act (Government Code Section 66477). In 1992, the City Council adopted the Park Impact

¹ San José Municipal Code Chapter 19.38

Ordinance (“PIO”)², which is similar to the PDO, but applies to new non-subdivided residential projects such as apartment buildings. The City’s PIO is consistent with the State’s Mitigation Fee Act.

Under the PDO and PIO, housing developers are required to dedicate land, improve parkland, and/or pay a parkland fee in lieu of land dedication for neighborhood and community parks. The amount of land to be dedicated is three acres for every 1,000 new residents added to the City by the new housing development. The number of new residents depends on the number and type of dwelling residential units included in the development. The most recent available federal census data, when available, is used to determine the number of residents per dwelling unit. Parkland “in-lieu” fees may be paid in certain projects where land dedication or construction of park improvements is not feasible. The amount of fees to be paid in lieu of land dedication or construction are established by resolution of the City Council and calculated based on the type of dwelling units and the land value per an annual land value study. For projects of 50 units or less, the City can only require the associated parkland in-lieu fees from developers.

Key historical milestones in the annual process to adjust fees based on land values include:

- In March 1998, the first report was completed for the study of residential land values in the City of San José and various identified neighborhoods charged pursuant to the PIO and PDO. The latest land value report incorporated the original 1997 study, and has been updated annually since it was first completed.
- In January 2007, as part of a comprehensive update of the PIO and PDO, City Council directed that any future fee adjustments to the Schedule of Parkland Fees be brought to the Parks and Recreation Commission (PRC) and Neighborhood Services & Education Committee (NSE), and then to City Council on an annual basis. Council also adopted Resolution No. 73587, which temporarily reduced parkland fees for high-rise multi-family residential projects of twelve stories or more located in the Downtown Core by 50 % of the applicable fees for multi-family 5+ units in the downtown area.
- In December 2007, and September 2008, City Council approved a new Schedule of Parkland Fees to reflect the 2006 Study and 2007 Study (Resolution Nos. 74152 and 74608 respectively).
- On April 20, 2010, City Council approved a new Schedule of Parkland Fees to reflect the 2009 Study (Resolution No. 75346).
- On May 10 2011, City Council approved a new Schedule of Parkland Fees to reflect the 2010 Residential Land Value Study (Resolution No. 75799). As approved by City Council on May 10, 2011, annual fee adjustments will no longer go to NSE to expedite the process.

² San José Municipal Code Chapter 14.25

- On May 8, 2012, City Council approved setting the downtown high-rise fees at 50% of normal downtown parkland fees, or \$7,650, as opposed to a fee of \$20,850 which was set in 2007. On May 15, 2012 the Mayor and Council approved the setting of parkland fees for downtown high-rise construction at \$7,650 per unit for the remainder of the incentive program. In 2012, in-lieu fees were also updated based on the new 2010 census which had just then become available.
- On May 14, 2013, City Council approved a new Schedule of Parkland Fees to reflect the 2012 Residential Land Value Study (Resolution No. 76631), and continuing the incentive program for downtown high-rise construction by keeping parkland fees there at \$7,650 per unit.

ANALYSIS

Based on feedback from the Mayor and City Council during the 2013 fee update process, City staff was directed to review the current methodology and determine if there was an alternative approach in establishing parkland fee values throughout the City. Staff is in the process of re-evaluating the methodology for developing future parkland fees.

Staff has contacted the City and County of San Francisco, the City of Milpitas, and the City of Los Angeles to find out if these agencies have a methodology for establishing parkland in-lieu fees as part of a benchmarking effort. There is no consistency in the method used by other agencies, so staff is further analyzing the approach described below. It is recommended as the most equitable method for determining parkland fees in the absence of statistically significant data pertaining to vacant land sales. The proposed methodology includes these following basic parameters:

- 1) Parkland fees will be determined through establishing a 'base' value for residential land city-wide.
- 2) New geographic boundaries will be drawn to be more inline with current real estate trends than the existing MLS district boundaries. The base citywide value will then be adjusted in each geographic boundary based on sales trends specific to that area.
- 3) The base residential land value will be adjusted based on the unit type being constructed, with higher density building sites yielding a greater fee. This is similar to the fee structure in place now. While single family dwellings pay a higher fee per unit than multi-family units, when density on the building site is factored in, the aggregated in-lieu fee is typically higher overall for each building site depending on the specific project.
- 4) In the absence of sufficient vacant land sales that typically would be used to verify the current base value, a trend factor will be established by using residential sales over the prior year that indicate the appreciation of property during the previous twelve month period. This trend factor would then be applied to the current base value (either positively or negatively), resulting in a new base value for the next year.

Due to staffing shortages and the unexpected retirement of the consultant who typically updates the annual parkland fees, staff was not able to complete a report based on the above new methodology for 2014. However, staff did work with Smith & Associates, a local real estate appraisal and consulting company, to update the study based on an evaluation of actual land and housing sales in each MLS area during calendar year 2013. The consultant found 41 land and home sales occurring during that period, and through an analysis of those sales, provided a professional opinion and recommendations regarding the percentage change in land value by MLS area between 2012 and 2013. The analysis indicates a range of increases between 5.0% and 12.5%, depending on MLS area, with the average increase of 8.8% Citywide. A map showing MLS districts in San José is provided as Attachment A. The 2014 proposed Parkland Fees, based on an analysis of the 2012 land value study and the current trend in land and residential sales during 2013, are included as Attachment B. The existing fees as approved by the City Council on May 14, 2013 are included as Attachment C.

In 2013-2014, the City collected over \$8,800,000 in parkland fees from 81 residential projects, a 62% decrease from a record high of \$23,500,000 in 2012-2013.

State law requires the adoption of a fee or increase of a fee to be effective no sooner than 60 days following the final action by the City Council to adopt the fee, or to increase the fee. Therefore, if approved by City Council on September 9, 2014, staff is proposing that the Schedule of Parkland Fees set forth in Attachment B go into effect on December 1, 2014. Any projects that: (1) have not fully paid parkland fees before December 1, 2014; or (2) have not entered into a fully executed parkland or turnkey parkland agreement before December 1, 2014, are subject to the proposed Schedule of Parkland Fees set forth in Attachment B. The City will not enter into a parkland or turnkey parkland agreement for purposes of payment of parkland in-lieu fees unless a discretionary permit authorizing a particular land use has been issued for the project, or the project has an approved tentative or parcel map, whichever occurs first, that will allow the City to calculate parkland fees based on Attachment B.

Fees for High-Rise Multi-Family Residential Projects located in the Downtown Core Area

Parkland fees associated with High-Rise Multi-Family Residential Projects in the Downtown Core Area (as defined in Section 2 of Resolution No. 73587) will continue to be set at \$7,650 for the remainder of the incentive program.

- On January 9, 2007, the City Council adopted Resolution No. 73587 to establish a temporary program providing incentives for the development of high-rise multi-family residential projects located in the Downtown Core Area east of Highway 87. Certain residential projects of 12 stories or more located in the specified area were eligible to pay a reduced fee of \$8,950 per high-rise unit until the temporary program automatically expires with the issuance of 2,500 building permits under the program. The intent of previous City Council action was to provide a 50% fee reduction for downtown high-rises based on the rate for Multi-Family 5+ units in 2005. On May 8, 2012, the City Council adopted Resolution 76220, continuing incentives for high-rise construction

downtown, by setting downtown parkland fees at 50% of applicable fees, or \$7,650 per unit. On May 15, 2012, Council approved the setting of parkland fees for Downtown High-Rise Units for Multi-Family 5+ units at \$7,650 per unit for the remainder of the program. On June 17, 2014, the City Council approved adding 50 units to the total number of units built under this program, to a maximum of 2,550 units, to allow pipeline projects to complete the permitting process. Council also directed staff to return in September 2014 with a program that establishes a Downtown Parks District for High-Rise and Mid-Rise residential projects. Staff will be coming back to Council to follow up separately as directed.

To date, 1,522 high-rise multi-family residential units in six residential housing developments have been completed or are under construction, as shown below:

Multi- Family Residential Projects in Downtown Core Area		
Completed Projects	Street Location	No. of Units
Axis Condos	Santa Clara & Notre Dame	328
The 88 Condos (Phase 1)	San Fernando between 2nd & 3rd	197
City Heights at Pellier Park	San Pedro & St. James	124
Mesa 360 Condos	Market & San Salvador	213
Under Construction		
One South Market	Market & Santa Clara	312
Centerra	Almaden / Carlysle / Notre Dame	347
	Total	1,522

Fees for Secondary Units (Granny Units)

Parkland fees for secondary units will be adjusted based on Resolution No.74314 adopted by Council on April 8, 2008. Pursuant to Resolution No. 74314, parkland fees for secondary units are set at fifty percent (50%) of applicable fees for single-room occupancy (SRO) units.

Fees for Low Income Units

The parkland fees charged for "low income units" as defined in SJMC Chapters 14.25 and 19.38 are set at fifty percent (50%) of the applicable parkland fees for each residential unit type pursuant to Resolution No. 75540 adopted by Council on August 24, 2010.

EVALUATION AND FOLLOW UP

Staff will continue to bring forward, on an annual basis, any future fee adjustments to the Schedule of Parkland Fees to the Parks & Recreation Committee and then to the City Council to reflect findings of the Residential Land Value Study.

POLICY ALTERNATIVES

Alternative #1: Do not adjust fees and leave them consistent with the 2012 land values.

Pros: Leaving fees the same will prevent increases to parkland fees paid in all MLS districts.

Cons: Adjusting the fees annually based on the latest year's land values allows the city to be better positioned to provide new parkland for the residents who are occupying the new housing units. If the fees remain unchanged, the City will have an extremely difficult time providing any new parkland to the residents.

Reason for Not Recommending: This alternative is not consistent with the City Council's prior direction to update the fees on an annual basis to reflect the most recent land value study.

PUBLIC OUTREACH/INTEREST

- ☐ **Criterion 1:** Requires Council action on the use of public funds equal to \$1,000,000 or greater. **(Required: Website Posting)**
- ☐ **Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- ☐ **Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

Although this item does not meet any of the special outreach criteria above, it will be posted to the City Council Agenda website for the September 9, 2014 meeting. This item will also be brought to the Parks & Recreation Committee for feedback on September 3, 2014.

COORDINATION

This memorandum has been coordinated with the City Manager's Budget Office, Office of Economic Development/Real Estate Services Division, Planning, Building and Code Enforcement, Public Works, and City Attorney's Office.

HONORABLE MAYOR & CITY COUNCIL

August 18, 2014

Subject: Adjustments to Parkland Fees

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CEQA

Not a Project, File No. PP10-067(a), Adjustments to fees, rates, and charges.

/s/

JULIE EDMONDS-MARES

Director of Parks, Recreation and

Neighborhood Services Department

For questions please contact Matt Cano, Deputy Director, at (408) 535-3580.

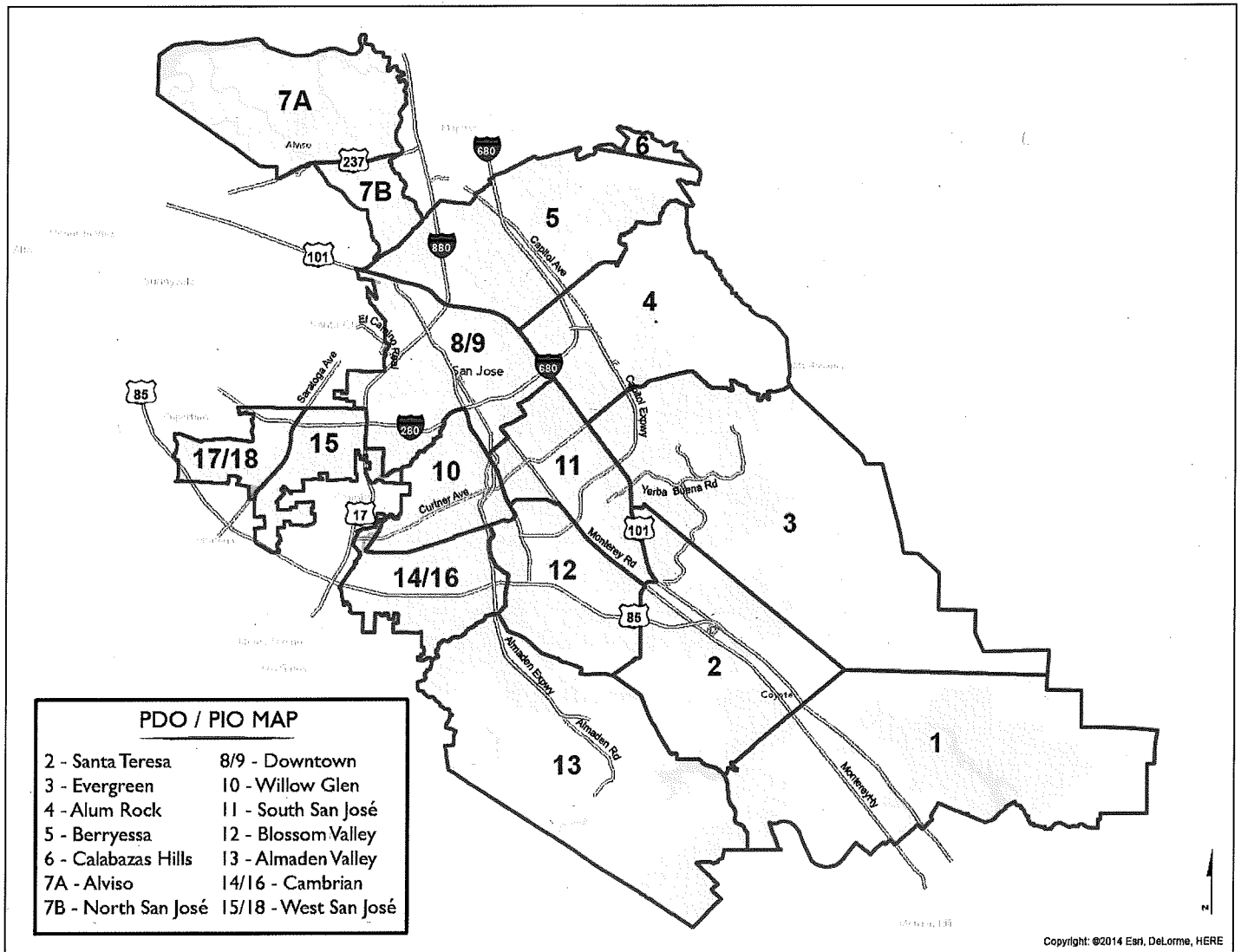
Attachments: A) Multiple Listing Service Districts in San José

B) 2014 Proposed Fees

C) 2013 Adopted Fees

Attachment A

MULTIPLE LISTING SERVICE DISTRICTS IN SAN JOSÉ



Attachment B 2014 Proposed Fees

(Fees set at 100% of 2012 Land Values trended to 2013)

MLS ZONE	AREA COVERED	100% OF COST/ SQUARE FOOT	PROPOSED FEE PER UNIT *					
			SINGLE FAMILY DETACHED	SINGLE FAMILY ATTACHED	MULTI-FAMILY 2-4 UNITS	MULTI-FAMILY 5+	SINGLE RESIDENCY OCCUPANCY UNIT (SRO)	SECONDARY RESIDENTIAL UNIT (Granny Unit) Maximum of 700 sq feet
Number of Persons Per Unit - 2010 Census Data			3.31	3.31	2.96	2.34	1.00	50% of SRO
Number of Dwelling Units to create 1 acre of Raw Parkland			100.7	100.7	112.6	142.5	333.3	n/a
2	SANTA TERESA	\$ 27.25	\$ 11,800	\$ 11,800	\$ 10,500	\$ 8,300	\$ 3,600	\$ 1,800
3	EVERGREEN	\$ 33.45	\$ 14,500	\$ 14,500	\$ 12,900	\$ 10,200	\$ 4,400	\$ 2,200
4	ALUM ROCK	\$ 22.10	\$ 9,600	\$ 9,600	\$ 8,500	\$ 6,800	\$ 2,900	\$ 1,450
5	BERRYESSA	\$ 33.30	\$ 14,400	\$ 14,400	\$ 12,900	\$ 10,200	\$ 4,400	\$ 2,200
7	ALVISO (North of 237)	\$ 22.30	\$ 9,600	\$ 9,600	\$ 8,600	\$ 6,800	\$ 2,900	\$ 1,450
7	NORTH SAN JOSE (So. of 237)	\$ 100.35	\$ 43,400	\$ 43,400	\$ 38,800	\$ 30,700	\$ 13,100	\$ 6,550
8	SANTA CLARA	\$ 26.88	\$ 11,600	\$ 11,600	\$ 10,400	\$ 8,200	\$ 3,500	\$ 1,750
9	DOWNTOWN	\$ 55.50	\$ 24,000	\$ 24,000	\$ 21,500	\$ 17,000	\$ 7,300	\$ 3,650
10	WILLOW GLEN	\$ 52.50	\$ 22,700	\$ 22,700	\$ 20,300	\$ 16,100	\$ 6,900	\$ 3,450
11	SOUTH SAN JOSE	\$ 22.50	\$ 9,700	\$ 9,700	\$ 8,700	\$ 6,900	\$ 2,900	\$ 1,450
12	BLOSSOM VALLEY	\$ 26.25	\$ 11,400	\$ 11,400	\$ 10,200	\$ 8,000	\$ 3,400	\$ 1,700
13	ALMADEN VALLEY	\$ 33.45	\$ 14,500	\$ 14,500	\$ 12,900	\$ 10,200	\$ 4,400	\$ 2,200
14 & 16	CAMBRIAN	\$ 26.38	\$ 11,400	\$ 11,400	\$ 10,200	\$ 8,100	\$ 3,400	\$ 1,700
15 & 18	WEST SAN JOSE	\$ 47.25	\$ 20,400	\$ 20,400	\$ 18,300	\$ 14,400	\$ 6,200	\$ 3,100
9 - DC	Downtown Core - East of Hwy 87 HighRise 12+ Stories					\$ 7,650 **		

* Fees for Low Income Units shall be at the rate of 50% of the applicable parkland fees for each residential unit type per Section 1 of Resolution No. 75540

** Downtown Core HighRise fees are to remain set at \$7,650 for the remainder of the program (until 2,550 units have been built).

Attachment C

2013 Adopted Fees

(Fees set at 100% of 2012 Land Values)

MLS ZONE	AREA COVERED	100% OF COST/ SQUARE FOOT	PROPOSED FEE PER UNIT *					
			SINGLE FAMILY DETACHED	SINGLE FAMILY ATTACHED	MULTI- FAMILY 2-4 UNITS	MULTI- FAMILY 5+	SINGLE RESIDENCY OCCUPANCY UNIT (SRO)	SECONDARY RESIDENTIAL UNIT (Granny Unit) Maximum of 700 sq feet
Number of Persons Per Unit - 2010 Census Data			3.31	3.31	2.96	2.34	1.00	50% of SRO
Number of Dwelling Units to create 1 acre of Raw Parkland			100.7	100.7	112.6	142.5	333.3	n/a
2	SANTA TERESA	\$ 25.00	\$ 10,800	\$ 10,800	\$ 9,700	\$ 7,600	\$ 3,300	\$ 1,650
3	EVERGREEN	\$ 30.00	\$ 13,000	\$ 13,000	\$ 11,600	\$ 9,200	\$ 3,900	\$ 1,950
4	ALUM ROCK	\$ 20.00	\$ 8,700	\$ 8,700	\$ 7,700	\$ 6,100	\$ 2,600	\$ 1,300
5	BERRYESSA	\$ 30.00	\$ 13,000	\$ 13,000	\$ 11,600	\$ 9,200	\$ 3,900	\$ 1,950
7	ALVISO (North of 237)	\$ 20.00	\$ 8,700	\$ 8,700	\$ 7,700	\$ 6,100	\$ 2,600	\$ 1,300
7	NORTH SAN JOSE (So. of 237)	\$ 90.00	\$ 38,900	\$ 38,900	\$ 34,800	\$ 27,500	\$ 11,800	\$ 5,900
8	SANTA CLARA	\$ 25.00	\$ 10,800	\$ 10,800	\$ 9,700	\$ 7,600	\$ 3,300	\$ 1,650
9	DOWNTOWN	\$ 50.00	\$ 21,600	\$ 21,600	\$ 19,300	\$ 15,300	\$ 6,500	\$ 3,250
10	WILLOW GLEN	\$ 50.00	\$ 21,600	\$ 21,600	\$ 19,300	\$ 15,300	\$ 6,500	\$ 3,250
11	SOUTH SAN JOSE	\$ 20.00	\$ 8,700	\$ 8,700	\$ 7,700	\$ 6,100	\$ 2,600	\$ 1,300
12	BLOSSOM VALLEY	\$ 25.00	\$ 10,800	\$ 10,800	\$ 9,700	\$ 7,600	\$ 3,300	\$ 1,650
13	ALMADEN VALLEY	\$ 30.00	\$ 13,000	\$ 13,000	\$ 11,600	\$ 9,200	\$ 3,900	\$ 1,950
14 & 16	CAMBRIAN	\$ 25.00	\$ 10,800	\$ 10,800	\$ 9,700	\$ 7,600	\$ 3,300	\$ 1,650
15 & 18	WEST SAN JOSE	\$ 45.00	\$ 19,500	\$ 19,500	\$ 17,400	\$ 13,800	\$ 5,900	\$ 2,950
9- DC	Downtown Core - East of Highway 87 HighRise Protects 12+ Stories					\$ 7,650 **		

* Fees for Low Income Units shall be at the rate of 50% of the applicable parkland fees for each residential unit type per Section 1 of Resolution No. 75540

** These fees are subject to provisions of Section 2 of Resolution No. 73587